

Health Has Lots of Moving Parts – Part II

Economic Impact of Obamacare in Puerto Rico

Abstract

Will Obamacare increase or decrease the average cost of an insurance policy on the individual market? Ending discrimination against sick people raises premiums for the healthy but lowers them for the sick. Reducing discrimination against old people raises premiums for the young but reduces them for the old. Regulating insurance products raises prices at the low-end of the insurance market but cuts costs for people who actually get sick and need insurance that actually covers illnesses. Unlike the US, Puerto Rico does not have a trillion dollars in subsidies to cut costs for the poor. Unlike the US, Puerto Rico does not have an Exchange to encourage competition between insurers and hence, reduce costs. Unlike the US, Puerto Rico does not have either an individual mandate nor an employer mandate to help reduce average premiums by bringing younger, healthier applicants into the market yet PR’s Insurance Code mandates essential benefits in health care plans. Find out some of the sobering implications of the Affordable Care Act of 2010 for MiSalud, Medicare Advantage, individuals, and employers in Puerto Rico.

Obamacare: What applies in PR?

As indicated in our previous Pulse issue (September), the triple goals of the Affordable Care Act (ACA, also known as Obamacare) are “to provide affordable health insurance for

all US citizens, including PR, halt the growth of healthcare spending for many Americans in need of health care, and improve the health of populations”. The US Department of Health (HHS) has determined that some of ACA’s market reforms will apply to health insurance coverage sold in the territories. Others, such as, the exchanges, which are organizations set up to facilitate the purchase of health insurance in every state of the United States as per ACA as well as the individual and employer mandates do not apply to the territories, including PR.

Obamacare: What does and does not apply in PR

Provisions	PR	US
Individual mandate	-	√
Employer mandate	-	√
Exchanges	-	√
Essential benefits	√	√
Free preventive care	√	√
No annual limits	√	√
No life limits	√	√
Dependents (26 yrs)	√	√
Reduced premiums	?	?

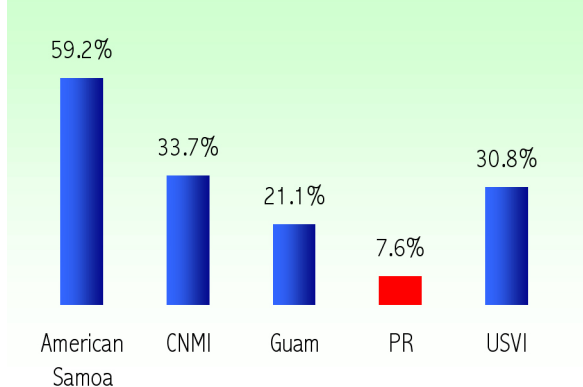
On July 2013, the PR Legislature amended Puerto Rico’s Health Insurance Code to enforce ACA’s mandated essential benefits, preventive services with no deductible or co-pay, removing annual and lifetime limits on health benefits, providing family coverage for young adults under age 26, eliminating exclusions due to preexisting conditions, and allowing for open and special

enrollment periods. Hence, all health insurance companies in PR must provide these essential benefits to individuals and employers.

PR elected not to have an Exchange. Instead, it will receive an additional \$925 million in Medicaid funds. Other territories will receive \$75 million. These funds will enable PR to provide public health care insurance (MiSalud) to 74,000 additional medically indigent persons plus reduce deductibles and copayments for 76,000 existing subscribers of MiSalud.

PR in better situation among territories

Uninsured as % total population Census '10, %



The critical importance of the individual and employer mandates was a key argument before the US Supreme Court. In fact, individual market premiums in New York State (high adverse selection) are expected to decrease by as much as 50% when the individual mandate and subsidies take effect in 2014.

While these provisions will help mitigate adverse selection in the states, none of them are mandated in PR. Competition among health insurance plans is reduced and premiums in PR could rise. Furthermore, while most states allow the federal government to operate the transitional reinsurance and risk adjustment programs on their behalf in 2014, the territories have to operate these programs themselves. Implementing the market reforms without any of the mitigating provisions could undermine the intent of ACA—making coverage more expensive for those who depend upon it.

Cost of Obamacare

The Congressional Budget Office estimated ACA would cost the federal government \$1.36 trillion over the next decade. One of ACA's cost-cutting tools is financially penalizing hospitals by reducing their government Medicare reimbursements if they have an excess number of patients who are released from the hospital and then readmitted within a month for heart attacks, heart failure, and pneumonia.

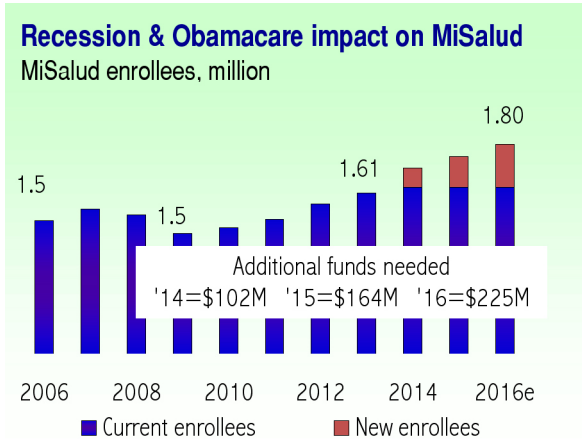
Another tool is requiring health insurers who spend less than 80% of the premiums on health benefits to reimburse part of these monies to participants. Insurers of large companies have to spend at least 85% of the premiums on benefits or pay refunds. The law encourages hospitals and other primary care providers to join forces in so-called Accountable Care Organizations (ACOs), to coordinate care for their patients and, if they meet certain quality targets, such as, keeping participants healthy and out of the hospital, then Medicare will pay them more.

From 2011 thru 2019, ACA will provide \$6,402 million, of which \$5,477 million are additional Medicaid funding to MiSalud, plus another \$925 million from 2014 to 2019 or \$154 million annually. However, the latter is said to require 45% matching funds from Puerto Rico. Have these funds been included in the PR Health Insurance Administration (PRHIA) budget?

MiSalud and Obamacare

The Commonwealth budget for MiSalud totals \$2,383 million in FY 2014. Federal funds for MiSalud are projected at \$1,136 million while the Commonwealth contributes \$1,247 million. With the addition of non-recurrent ACA funds, essentially Medicaid capped funds plus increased income levels for MiSalud and potentially higher unemployment, HCCG estimates that MiSalud could expand the number of participants from 1.6 million to 1.8 million by 2016. The additional

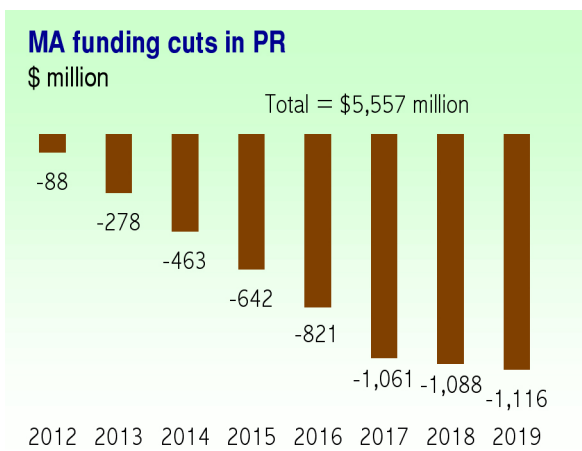
matching funds for Medicaid could amount to \$756 million from 2014 to 2019. PRHIA already projects a shortfall of \$110 million in FY 2014 plus it had \$183.3 million in outstanding debts to the Government Development Bank (GDB) and other private financial institutions.



MiSalud depends on 51% of federal funds, which are either capped Medicaid funds or non-recurrent Medicaid funds thru ACA provisions. A careful balance must be struck between the expansion of MiSalud program and the foreseeable fiscal needs of this program.

Impact on Medicare Advantage

Starting in 2004, Medicare Advantage (MA) began paying private plans a higher per-enrollee cost than the public program. As of 2013, MA plans in the US were 114% of traditional



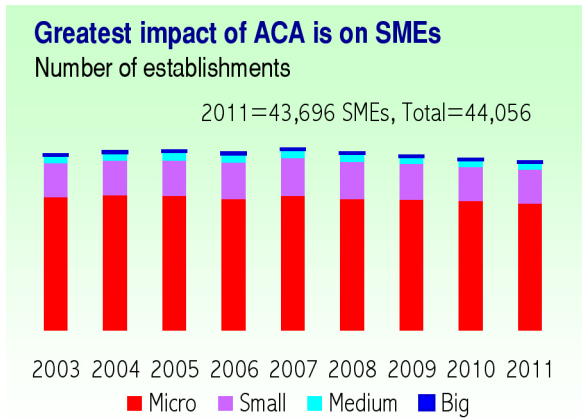
Medicare fees compared with 158% in PR. ACA targeted cuts in MA starting in 2012 and set to reach 115% of traditional Medicare by 2019. The progressive MA funding cuts are particularly onerous for PR because, as of 2012, 70% of Medicare beneficiaries in PR subscribed to MA plans compared with 27% in the US. It is estimated that MA cuts in PR will represent a loss of \$5,557 million from 2012 thru 2019.

According to Zetina Logixx, the PR health industry posted \$299 million in profits, of which, \$203 million or 68% of these profits correspond to Medicare Advantage Platino and Non-Platino in 2013.

Obamacare impact on employers

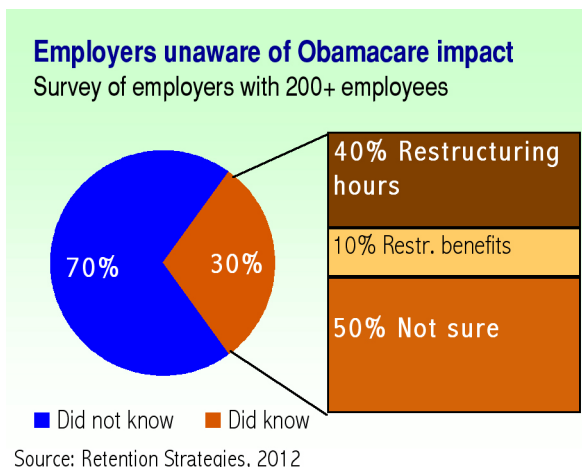
Small companies, generally those with fewer than 50 employees, have important considerations as a result of some key provisions of ACA that become effective in 2014. Small employers need to evaluate their options for offering health insurance to their employees since, by law, health insurers now have to offer a minimum of ten categories of essential health benefits. These encompass coverage for hospitalization, wellness services, prescription drugs, preventive care, and other health benefits. All these entail increasing costs of offering health benefits. Small employers need to determine whether they will offer health insurance benefits to their employees and if so, what are the options for buying.

In PR, the Economic Development Company (EDB) defines a small and medium enterprise (SME) if its revenues are up to \$5mm and has between 11 and 250 employees. In 2011, there were 44,056 number of establishments of which 99% or 43,696 were SMEs. Hence, the small group insurance market will have the greatest impact on small and medium employers as a result of ACA provisions applicable to PR. Remember there is no compulsory public Exchange for employers to buy insurance for their employees and if they do buy it, it will probably be more expensive.



Source: County Business Patterns & HCCG.

According to Retention Strategies Consulting, 70% of employers in PR as of August 2012 did not know about the impact of Obamacare on their business. About 40% of employers with 200 or more employees indicated they would shift to part time and 10% would restructure employee benefits. The new Health Insurance Provider Fee (HIP) is another ACA provision that will impact employers as of January 2014. According to Zetina Logixx, this fee will be an average 2% of \$2,330 million in total commercial premiums or \$46.6 million per year for a total of \$280 million from 2014 thru 2019. This fee will be paid to the federal government.

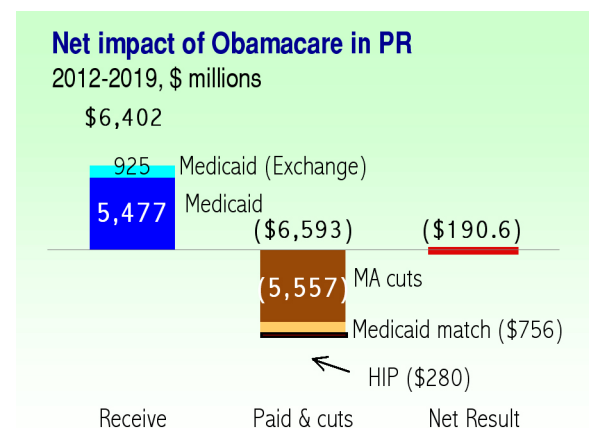


Source: Retention Strategies, 2012

Without an individual mandate, without an employer mandate, and with no compulsory Exchange in PR to reduce risk and increase competition, premiums for private individuals and employers are expected to increase.

Conclusions

Current and past administrations have publicized all the billions PR will receive from Medicaid funds. HCCG estimates PR will receive \$6,402 million from 2012 to 2019. However, there will be huge amounts of federal cuts in Medicare Advantage programs (an estimated \$5,557 billion) plus the \$756 million in local matching funds required to receive the additional \$925 million in Medicaid funds. Another cost of Obamacare is the \$280 million insurers will pay thru the Health Insurance Provider Fee, which will be passed on to subscribers. HCCG estimated \$6,593 million in cuts or costs for PR. The net result is that PR could lose \$190.6 million from 2012 to 2019.



Sources HCCG, Zetina Logixx, Luis Maldonado.

Obamacare increases dependence of MiSalud, on 51% of non-recurrent and capped federal funding at a time when the PR government finances are in distress. Medicare Advantage insurers, a big player in the PR health industry, will suffer a big hit, impacting jobs and reducing future benefits for their subscribers. Small and medium enterprises will find it hard to afford the insurance premiums increase. If you are older, but too young for Medicare, or if you have pre-existing conditions, you're very probably going to do better buying an individual plan under Obamacare. And, yes: if you are healthy, young and shopping on the individual market for insurance, Obamacare *certainly* means you will pay more.